

# **MANAGING THE COST OF COST PLUS FEE CONTRACTS:**

## **A Bean Counter's Perspective**

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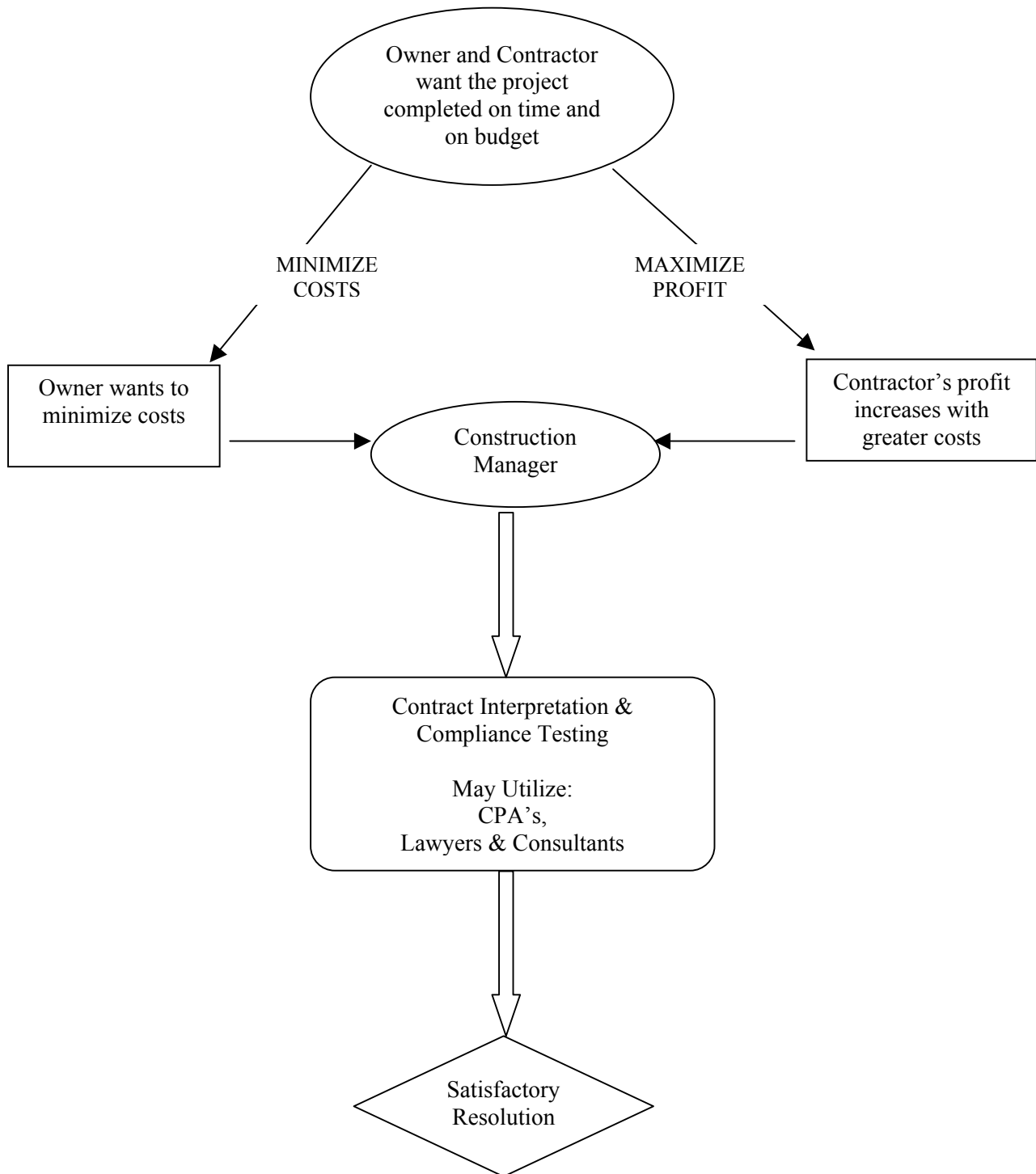
### **Introduction**

A construction contract where the basis for payment is the cost of the work plus a fee is one method an owner may use in an attempt to control the costs of a project. The owner's use of a construction manager (CM) is often another attempt to control costs while also helping to ensure contract compliance. During the course of a construction project, the owner relies on the CM to wear many hats – the hardhat of a contractor or subcontractor, the creative design hat of an architect, the legal hat of an attorney, and even the green visor of a bean counter. This article is intended to provide CM's with useful advice when wearing their bean counter hat. The authors realize that most CM's are not trained to be accountants (nor want to be!). Yet, throughout the life of a project, they are repeatedly expected to read and interpret contract clauses related to accounting matters, read and digest stacks of cost invoices, accounting reports and other support from the contractor as well as the subcontractors, suppliers, etc., and appropriately apply proper accounting principles and controls. Ultimately, the CM is held accountable to an owner for the millions of dollars spent on the project based upon the CM's approval of the contractor's monthly requisitions.

Despite the best attempts of a CM, some unallowable costs may make their way into a contractor's requisitions (imagine that!). Before job closure, many owners turn to their CPA for assistance in verifying the amount of the approved costs. Unfortunately, the authors have found themselves in the position of having to question why certain unallowable costs were approved for payment. There are a multitude of reasons why it happens, but regardless of the specific cause, it is an uncomfortable position for all involved and is the main reason why this article has been written. The authors' intention is to provide CM's with items to consider in an attempt to minimize the approval of unallowable costs.

### **Overview**

Most owners who have embarked on a construction project are interested in keeping the costs of the project to a minimum and within their allotted budget. For cost-plus contractors, on the other hand, higher project costs may translate into increased profitability, depending on the specific contract terms. As a result, owner goals and contractor goals may diverge as the project progresses and can be difficult to balance. As illustrated on the following page, construction managers are typically caught in the middle.



One of a construction manager's responsibilities is to manage this divergence of goals between the contractor and owner in accordance with the contract documents. If left unchecked, this divergence could result in different (and often creative!) interpretations of allowable costs being charged to the job.

The CM utilizes internal, and potentially external, resources to bring the parties back together to create a reasonable balance. One of the common external resources available to the CM or owner is the use of a CPA firm to analyze the project costs charged to the owner. CPA firms that specialize in construction and real estate development can add value because they understand the accounting perspective of owners, contractors, and the many others involved in a construction project. Through contract analysis and compliance testing, an allowable cost of the work can be established. Once the total allowable costs are determined, this divergence of goals can often be reconciled through a negotiated settlement.

We have found that involving a qualified CPA in the process is important because significant cost savings are typically identified. The following example, based on our review of a recently completed \$150 million construction project, illustrates how significant these cost savings can be.

Billings above internal job cost ledgers	\$230,000
Billing of remediation work of subcontractor, covered under surety bond	530,000
Costs charged to the contract "in error"	100,000
Overcharge on state sales tax	600,000
Overcharge on local sales tax	525,000
Non-applied discounts that accrued to owner	<u>15,000</u>
Total savings for project	<u>\$2,000,000</u>

Cost savings of this magnitude, uncovered after the fact (after payment requisitions have been approved, and payments made), may put the CM on the hot seat. We believe that proper planning and monitoring can help avoid or minimize these types of issues and have included recommendations below based on our experience that may help CM's minimize after the fact cost issues (and avoid the hot seat!).

Before proceeding, let's briefly review some of the more widely used variations and provisions used in cost-plus contracting.

### **Contract Variations, Terms And Provisions**

Cost-plus contracts are a type of contract wherein the contractor is compensated through reimbursement of allowable or otherwise defined costs, plus a fee. The two most commonly used cost plus contracts are:

- Cost Plus Contract with a Guaranteed Maximum Price (GMP) (i.e. AIA document A111)
- Cost Plus Contract without a GMP (i.e. AIA document A114)

The terms and provisions agreed to by owners and contractors in cost-plus contracts can vary widely. Some of the more common terms and provisions relevant to this discussion are described below.

- Costs to be Reimbursed: Defines costs of the contract to be reimbursed by the owner. Contract documents typically also include a definition of costs not to be reimbursed.
- General Conditions: Some contracts specify certain costs to be classified as “general conditions expenditures.” The specified costs may be limited to a fixed amount or percentage and may require varying levels of substantiation.
- Guaranteed Maximum Price: Refers to the contractor’s guarantee to the owner that the cost of the work plus the contractor’s fee will not exceed the specified amount (the GMP) based upon the existing scope of work. Costs in excess of the GMP are absorbed by the contractor.
- Savings Clause: Often seen in GMP contracts. Defines how savings (generally measured by the extent contract costs come in under the GMP or other stipulated amount) will be shared between the owner and the general contractor.
- Contingency Funds: Most cost-plus contracts establish contingency funds to cover a variety of unanticipated expenditures. The contract generally specifies the criteria to be met in order for the contractor to draw upon the contingency funds.
- Acceleration Contingency: On time critical projects, the owner and contractor may establish a contingency to be used specifically to fund acceleration costs.

## **Contractor Qualification**

An owner makes many critical decisions early in the cost-plus contracting process, including the selection of an architect, engineer and often a construction manager. The construction manager will often assist the owner in the selection of a general contractor. Given the typical CM’s past experiences, knowledge of the industry, and many other factors, the CM’s assistance in evaluating general contractor candidates should be invaluable to the owner.

Many owners and CM’s have developed extensive programs to qualify potential contractor candidates. Others simply use the Contractor Qualification Statement developed by the American Institute of Architects. No matter what program or form is used, the end result should be a contractor that can perform on a technical and financial basis.

Cost-plus contracts are often let on a “competitively-negotiated” basis rather than on a straight competitive bid basis. The contract solicitation and negotiation process often allows for significant interaction between the owner, the CM, and the contractors being considered for the project. Owners and CM’s should take advantage of this interactive process to gather information regarding the contractors being considered, including: company history, corporate structure, key people, licensing, experience, references, similar completed projects, bonding capacity and financial strength.

In addition to the standard questions most owners and CM’s ask when evaluating a general contractor candidate, consider inquiring about the following:

What percentage of the contractor's work is performed under cost-plus contracts (either with or without a GMP)?

For work done under cost-plus contracts with a savings clause, how often (expressed in a rough percentage) has the contractor brought jobs in with savings within the last three years? Ask the contractor to provide references from recent contracts if applicable.

What is the contractor's available bonding capacity and line of credit availability?

Has the contractor (or any related entity) been turned down on any surety bond requests or bank credit requests within the last three years? If so, ask the contractor to please provide details.

*If circumstances warrant, consider obtaining contractor authorization to speak with the contractor's banker and surety bond representative.*

When performing your financial analysis of the contractor, keep in mind that many contractors operate as part of a group of related entities. Consider asking the contractor for financial information on related entities.

Has the contractor made any guarantees on behalf of related entities (i.e. guarantees to the related entities' bonding company, bank, etc.)?

Consider inquiries to determine if the contractor has a tendency to submit claims.

Has the contractor submitted any claims in excess of (\$ figure would depend on the circumstances) during the past 5 years? If so, how many?

*If a copy of the contractor's financial statements is available, check footnotes for disclosure of claims, lawsuits, and other contingencies. Consider whether legal and professional fees are unusually high and follow-up as necessary.*

When checking references, try to obtain a few references outside those handpicked and provided by the contractor in order to get a more complete picture. Ask for a reference on a cost-plus job that exceeded the GMP.

Consider including the following questions to the contractor's references in your standard qualification screening:

Did the contractor submit excessive or overpriced change orders? What percentage of the final contract value was made up of change orders?

If the job was a cost-plus job, were there any disputes before, during, or after contract performance regarding the allowable costs?

If the job was a cost-plus job with a GMP, were there any savings (relative to the GMP) upon completion of the job?

If the job was a cost-plus job, were the costs audited upon completion of the contract? If so, what were the results?

It is extremely important to have qualified personnel or professionals who understand construction company operations and financial information involved in the qualification process. It is our experience that high risk or problem contractors can be avoided with a sound qualification process.

## **Contract Negotiation And Documentation**

The relationship between the various parties involved in a construction project should be built on the solid foundation of a clear, thorough, well thought out, and well-documented contract agreement.

As contract negotiations begin with the contractor, numerous provisions must be addressed. Some of the provisions that have given rise to significant issues in our experience are discussed below:

Accounting Records: The contract should require the contractor to maintain all accounting records related to the project for at least three years following completion of the project and to give the owner and the owner's accountants full access to such records, including the ability to audit or otherwise verify the contractor's accounting.

### **Recommendations:**

- Standard contract documents may include a time limitation (30 days from the date the contractor provides the final accounting to the architect in the standard AIA contract document) on the owner's accountant's ability to review and report on the contractor's final accounting. Consider getting the accountant involved (i.e. reviewing the contract documents and the contractor's requisitions) before the final accounting is received in order to allow enough time to review the contractor's accounting and attempt to resolve issues.
- Consider adding language that stipulates that the contractor will reimburse the owner for the cost of the audit (or other verification procedures) if a certain threshold of submitted costs are determined to be unallowable.
- If the contractor's primary office is not in the area, decide up front where the audit (or other verification procedures) will take place and where the records will be stored.

Subcontractor and Supplier Procurement: The process of selecting subcontractors and suppliers should be properly documented and agreed upon between the owner and the contractor.

### **Recommendations:**

- Depending on contract size, consider requiring the contractor to obtain at least three bids and to select the lowest bidder unless the owner agrees with the selection of another bidder
- Consider requiring the contractor to obtain independent bids for work the contractor proposes to self-perform
- Consider requiring the contractor to name any related parties to be considered during the procurement process

*Many contractors have established related entities for equipment rental and other services related to contract performance. The owner and CM need to be aware of the related party*

*relationship in order to focus appropriate attention on determining that the related party pricing is not out of line with the market.*

- All bids should be retained with the records of the project.

Labor Costs: To avoid disputes, reimbursable labor should be thoroughly documented in the “Costs to be Reimbursed” section of the contract.

Recommendations:

- Consider requiring the contractor to submit labor rates for specific employees to be utilized on the job for pre-approval - especially the higher ticket personnel such as project managers, assistant project managers, and field superintendents and foremen. To the extent it isn’t feasible for all employees to be utilized on the job to be identified up front, consider requiring the contractor to submit rates for the various labor classifications to be utilized on the job (along with a current employee listing by classification) for pre-approval. Consider clarifying whether average rates by classification will be accepted or if reimbursable costs will be limited to actual rates. Also consider requiring the contractor to submit all employee classification changes affecting the job during the course of performance to the owner for approval.

*On one prior engagement, the contractor charged employees to the job at an internally developed “average rate” based upon the employee’s classification. The average rate was often well in excess of the employee’s actual compensation rate. As a result of using “average” rates per classification rather than actual rates, the contractor charged an additional \$376,000 to the job.*

- Consider clarifying which administrative and supervisory personnel, if any, will be included in reimbursable labor. There are many potential gray areas that can lead to after the fact disputes in the absence of a clear understanding on the front-end. We have seen cases where multiple project managers, assistant project managers, project accountants, purchasing personnel, IT personnel, interns, secretaries, and contractor executives are charged to the job.
- Consider clarifying the time-keeping records and documents to be used by the contractor to support labor charges to the job.
- Consider clarifying whether the contractor can charge overtime hours worked by salaried employees to the job using hourly rates.

*We have seen instances where project managers are charged to the job on an hourly basis in excess of 40 hours per week even though the project manager is salaried and is not compensated for overtime.*

- In cases where the contractor will self-perform certain trade work (i.e. concrete, drywall, etc.) on a fixed price basis, consider developing a process whereby the owner and CM can satisfy themselves that employees working on the fixed price trade work are not being charged to cost codes outside that trade that are reimbursed on a cost-plus basis.
- Likewise, in cases where general conditions costs are fixed under the contract, consider developing a process whereby the owner and CM can satisfy themselves as to the classification of labor costs between general conditions and all other cost codes.

- Consider clarifying whether bonuses are to be included in reimbursable labor. If so, the methodology of the bonus calculation should be agreed upon and documented in advance.

*In one instance, a contractor charged a job \$210,000 for bonus payments (including \$8,500 to the project accountant, \$8,500 to the contractor's purchasing agent, and \$12,500 to the project secretary) for the contractor achieving a gross profit in excess of the targeted gross profit at the beginning of the job. The contractor argued that the bonuses were a "standard" company practice, outlined in their company employee manual, and therefore should be considered a reimbursable cost.*

*The owner, however, was unaware that bonuses were being charged to the job. The owner felt that the base compensation rates being charged to the job were more than adequate, and that the bonuses were discretionary based on project profitability and should not be considered a reimbursable cost. The parties were left at an impasse that could have been avoided with some upfront planning.*

- Consider clarifying whether holiday, vacation, and sick time will be reimbursable and, if so, the mechanism by which such time will be charged to the job. Some contractors may include holiday, vacation, and sick time as part of their labor burden rate, while others may charge such time directly to the job the employee was working on at the time of the holiday, sick, or vacation leave. It is important for the owner and CM to understand the mechanism by which the contractor will charge holiday, vacation, and sick time to the job.

*During our analysis of a contractor's average rates used to charge labor, we noted that the contractor excluded holiday, vacation, and sick time in calculating the average labor rates (thereby increasing the average rates), and then also charged the job for actual holiday, vacation, and sick time taken by employees on the job, effectively double-charging the job.*

**Labor Burden Costs:** Due to their somewhat subjective nature, labor burden costs can often end up in dispute. Whenever possible, consider negotiating and approving burden rates in advance.

#### Recommendations:

- Consider whether the labor burden rate accurately reflects the contractor's real labor burden costs. For example,

##### Payroll Taxes

Are payroll taxes being applied at the correct percentages?

Are phase-out limits for FUTA, SUTA, and FICA factored in appropriately?

##### Workers' Compensation Insurance

Given the variety of ways general contractors can now obtain workers compensation insurance, it is important for owners and CM's to understand how the rates being burdened to the contracts relate to the contractor's actual insurance costs.



Is the contractor computing the burden rate based on standard workers compensation premium rates without factoring in modification adjustments, significant retro refunds or other self-insurance savings?

*During our analysis of one contractor's burden rate, we noted that the contractor's actual workers compensation costs under its self-insurance program were well below what would have been paid in standard premiums under a guaranteed rate program. Nonetheless, the workers compensation portion of the contractor's burden rate was based on the higher standard premium.*

For multi-state contractors, is the appropriate state workers compensation rate being applied to your job, given its location?

Does the contractor's accounting system apply the workers compensation portion of the burden rate correctly to overtime wages?

Other: The owner and CM should understand and be comfortable with all other components of the contractor's burden rate. Other components may include such items as general liability insurance, health and medical insurance programs, vision and dental programs, long and short term disability programs, employee life insurance programs, pension, profit sharing, and other similar arrangements, employee assistance programs (i.e. tuition, education and training programs, commuter voucher program, etc.) and other executive benefit costs.

Taxes: There are numerous types of taxes that contractors attempt to charge as a reimbursable cost to the job. These include sales & use tax, business & occupational tax, franchise tax and gross receipts tax. Most cost-plus contracts simply state that taxes associated with the work are reimbursable. This language should be expanded to specifically address the state and local taxes applicable at the site of the project.

Recommendations:

- *A Massachusetts based contractor established a joint venture that performed a contract in the District of Columbia. The District charges a franchise tax (similar to an income tax) on unincorporated businesses. The contractor charged the job a total of \$171,000 for these taxes over the life of the contract, which the Owner never intended to reimburse. In addition, the contractor charged the job for \$11,600 in costs incurred by a national accounting firm to prepare the D.C. joint venture's tax returns.*
- *The city of Phoenix increased its portion of the sales tax charged on all transactions including construction projects. The contractor remitted sales tax based on this increased rate and passed the charge on to the owner (which the owner paid for). We were able to determine that the lower original sales tax rate should have been used for the duration of the project due to a grandfather provision in the law. As a result, the owner saved \$525,000.*

Rental Rates for Equipment: Most contractors will charge an internal rental rate to their jobs for contractor-owned equipment used at their job sites. Consider comparing the contractor's rates to nationally published rates or those of other equipment rental companies in the area. Additionally, the owner and CM need to address how idle equipment time should be charged to the job. We have seen idle equipment time become a point of contention many times (costs charged for cranes and other heavy equipment can be significant).

Other Costs: Although it may not be possible to foresee all “other” costs that a contractor may attempt to charge to the job, a thorough attempt to clarify “other” reimbursable costs upfront can minimize disputes down the road.

Recommendations:

- It may be helpful during the negotiation and documentation phase to consider the following examples of “other” costs we have seen contractors charge to contracts:
  - Costs incurred prior to the notice to proceed
  - Relocation expenses, including attorney and real estate agent fees to sell personal residences
  - Travel expenses, including travel and entertainment for spouses and out of town trips to attend educational seminars
  - Bond premiums calculated without factoring in graduated rate savings
  - Charitable contributions
  - Magazine subscriptions
  - Annual credit card dues and air club fees
  - Office parties

Time invested to negotiate and document a contract agreement that includes a clear and thorough understanding between the parties can help minimize costly, relationship damaging disputes as the job progresses.

### **Monitoring the Contract Costs Until Final Requisition**

As a project progresses, it is typically the CM’s responsibility to review and approve the contractor’s monthly requisition and application for payment. The owner relies on the CM to remain familiar with the contract terms affecting cost reimbursement throughout the life of the project.

The process to adequately review and approve a contractor’s monthly requisition is a very time consuming process given the volume of paperwork typically submitted by the contractor. Many CM’s expend their time and effort reviewing and approving the bigger ticket items – with good reason. However, over time, even the small ticket items can add up to be significant. This fact, coupled with the fact that CM’s may rely on their memory of a contract’s terms rather than actually referring back to the contract documents, can result in an accumulation of unallowable costs being approved for payment.

The following are recommendations to improve the requisition approval process:

- Shortly after the contract documents are finalized and hopefully while the intended meanings of the contract provisions are fresh in your mind, summarize the terms of the contract as they relate to allowable vs. unallowable costs. Refer to this summary each month as requisitions are approved.
- Meet with the contractor to determine what reports are available from the contractor’s accounting system. Most accounting systems are capable of providing numerous reports for the same piece of information.

Therefore, it should not be difficult to find reports that provide the information in a summarized format that allows the CM to evaluate the costs effectively and efficiently.

In the majority of situations in which we have been involved, the owner has seldom requested accounting information in a specific format. Rather, it is the contractors themselves who print reports that they believe are useful or serve the necessary purpose. We often find that the contractor floods the CM with detail. In certain circumstances, a summarized report would have been a more effective tool for the CM to use when approving costs.

- If a report is not available in a format that allows the CM to efficiently analyze certain costs, request that the information be exported by the accounting system to a product such as Excel. The CM can then sort or rearrange the data in a useful format.
- Meet with the contractor to determine if they will be utilizing a computerized project management system. If so, determine what reports are available to allow the CM to analyze the contract costs from a project management perspective. Discuss reports such as change order logs, subcontractor notes, subcontractor change order logs, material purchase order logs, etc.
- If possible, the contract terms should provide the owner with the ability to request both the accounting system reports as well as the project management reports.
- When reviewing change order requests, be aware of the contract clauses related to costs of defective work. Change orders referring to costs incurred as a result of another subcontractor's issues or using terms such as "re-work" should be questioned as allowable costs. These change order requests should be copied and accumulated in a separate file by the CM. The CM should consult these copies on a recurring basis as they approve future change orders on the project. Hopefully, a reminder of the "issues" that occurred previously on the project will avoid approving change orders submitted later in the construction process for these same items.
- Markups by the contractor should also be reviewed. Many times we see contracts that do not allow additional fee or general conditions until a certain dollar amount is reached, but often these markups are added to all change orders.
- Be aware of all aspects of the contract price for which there are both cost-plus components as well as fixed price components. Change orders that increase the fixed component need to be scrutinized to ensure that the amount is not covering costs that are also being billed as part of the cost-plus component.
- It has been our experience that the contractor will typically submit the first two or three requisitions with varying degrees of support and with varying reports attached. This typically results from the contractor and his accounting department reaching an understanding among them as well as also learning the terms of the contract related to allowable costs. Typically, by the fourth or fifth requisition they have an established pattern. It is important that the CM spend a significant amount of time scrutinizing the fourth or fifth requisition. In our experience, informing the contractor of costs the CM believes are unallowable early would have prevented many uncomfortable situations. Many contractors simply operate under the premise that if the cost was approved last month, it must be okay to submit the same type of expense again this month.

The answer lies in the CM's ability to understand the contract terms and allow sufficient time to analyze the requisition. Typically, the contractor does not purposely overcharge the owner, but it does occur. If the errors and incorrect interpretations are addressed early, they can usually be amicably resolved.

## **Final Requisition Procedures**

As a cost-plus project nears completion, it is time for the owner, with input from the CM, to decide whether or not to "audit" the contractor's costs. If the owner is pleased with the job done by the contractor, comfortable with the final contract value, and if reimbursable costs were well documented up front and the owner and CM have rigorously monitored the contractor's requisitions during the life of the job, the owner and CM may decide that an "audit" is not necessary. Also, if the contract includes a GMP, and the contractor's costs have greatly exceeded the GMP, such that it is unlikely that any deductive cost adjustments generated by the "audit" would result in savings to the owner, an "audit" may not be beneficial.

If, on the other hand, the owner is not comfortable with the final contract value, and/or the owner and CM have not rigorously monitored the contractor's costs during the life of the job for whatever reason, an "audit" may be in order. An "audit," or some form of professional consultation, may also be appropriate to determine if there are any significant technical financial or tax issues involved (as in our earlier example of the sales tax rate adjustment on the Phoenix project).

Should the owner and CM decide to "audit" the contractor's costs, they would then move on to determining who should perform the audit and what form the "audit" should take. The owner and CM can consider performing verification procedures internally if they have the proper skills and resources on staff. Even if they have such skills and resources on staff, however, the owner and CM may decide that they want a fresh, independent, set of eyes to look over the contractor's costs, and often turn to CPA's experienced in the construction industry.

If the owner decides to use a CPA firm to "audit" the contractor's costs, one of the first matters to clarify is what form the verification process will take. To a non-accountant, "audit" is most likely a broad generic term that refers to any sort of verification of financial information (you non-accountants don't know the fun you're missing!). To a CPA, however, audit is a technical term that invokes many specific standards and requirements. A formal audit provides the highest level of assurance a CPA can provide that the contractor's costs are fairly stated in accordance with the contract documents. Formal audits, however, can be somewhat inflexible in terms of procedures that must be performed (and may therefore be more expensive than alternatives), and also utilize the concept of materiality, which may not fit well in this context.

There are alternatives to a formal audit that the owner and the CPA firm can use to work together to accomplish the verification objective. The alternative that we have found to be popular with owners is referred to as an "agreed-upon procedures" engagement.

In an agreed-upon procedures engagement, a CPA firm is engaged to perform specific procedures and report findings. Agreed-upon procedures are often used when a client wants a CPA firm to "look things over and see if there are any problems." The CPA firm performs the procedures that have been agreed upon with the client (in this case, the owner) and reports findings, but does not perform an audit or provide an opinion. A CPA's work on agreed-upon procedure engagements is performed in accordance with Statements on Standards for Attestation Engagements promulgated by the American Institute of Certified Public Accounts.

Agreed-upon procedure engagements are flexible in that the CPA firm can perform an initial review of the contract documents and the contractor's requisitions and then, together with the CM, provide feedback to the owner as to the specific procedures that should be performed as part of the engagement. Procedures can be added, modified or deleted mid-stream at the owner's discretion as circumstances warrant. As a result, the owner, together with the CM, may direct the CPA firm to concentrate their efforts in the areas that may generate the most favorable results. In an agreed-upon procedures engagement, the concept of materiality does not generally come into play unless the client (owner) wishes it to.

The CPA's report in an agreed-upon procedures engagement takes the form of a listing of procedures performed, and a listing of the resulting findings. The report will generally include an itemization of questioned and unallowable costs, which becomes the basis for negotiations between the owner (together with the CM and the CPA, if necessary) and the contractor.

Ultimately, it's up to the owner to determine what type of engagement will be used to fulfill the verification objective. In our experience, each time we've sat down with an owner and discussed the pros and cons of a formal audit versus an agreed-upon procedures engagement, the owner has chosen the agreed-upon procedures engagement. Whichever format the owner chooses, we again emphasize the importance of utilizing individuals with the appropriate background, skills, and resources to perform the "audit" or verification of the contractor's costs.

## **SUMMARY**

As stated in our introduction, the CM is expected to wear many hats over the life of a construction project. In this article, we have attempted to assist CM's in their role as a bean counter throughout the various stages of a cost-plus project. Drawing from our experiences in verifying the contractor's final accounting, we have focused on those areas that have given rise to significant accounting issues.

By devoting the appropriate attention to the early phases of the construction process, the CM can help minimize the possibility of costly disputes and uncomfortable situations down the road. The construction management process improves with proper contractor qualification and a well-documented contract agreement. Through adequate monitoring of the contract costs, the CM can help resolve the errors and disputes that do arise in a timely and cost-effective manner.

Even after proper planning and monitoring, circumstances may exist that prevent the CM from addressing and resolving all accounting issues. In such circumstances, the CM and a qualified CPA can work together to produce a satisfactory resolution and a satisfied client.